



The President's Daily Brief

23 August 1971

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PRINCIPAL DEVELOPMENTS

Vice President Ky's decision not to campaign again threatens to make a mockery of the South Vietnamese presidential elections. (Page 1)

The new Bolivian Government, headed by retired Colonel Banzer, will abandon the leftist policies of the Torres regime and chart a course of moderation in domestic and foreign affairs. (Page 3)

Hectic and confused trading conditions are expected as major money markets open this morning, but central banks in most countries intend to intervene firmly to prevent further substantial appreciation of their respective currencies vis-a-vis the dollar. (Page 4)

Peking's low-key denunciation of the US dual representation proposal serves to remind the international community of China's terms for joining the UN. (Page 6)

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SOUTH VIETNAM

Vice President Ky's decision not to campaign in the October presidential election again raises the spectre of an uncontested travesty. Ky may have concluded that the odds were stacked too heavily against him to allow a respectable showing. Even in a relatively honest election, his inadequate financial support, the dearth of popular appeal for his candidacy, his northern background, and his role in suppressing the Buddhist protest movement in 1966 all would have lessened his chances of mounting a strong challenge to Thieu.

Ky delayed his decision in order to sound out various political and religious groups, and he may have been discouraged by their reactions. Following an earlier press conference, two of Ky's aides told embassy officials that the attitude of the An Quang Buddhists would be a decisive factor in Ky's decision.

In view of the An Quang leadership's reluctance openly to endorse Big Minh, whose defeat they felt would then hurt their own political options, it is unlikely that they would have given much encouragement to another sure loser--and especially to the man who crushed their protest movement in 1966.

Ky's proposal--allowed by the constitution--that he and Thieu resign and permit the Senate chairman to assume control of the government and call for new elections is a possible way out of the present imbroglio. Thieu, however, has all along taken a relatively complacent attitude about the possibility of a one-man race and has suggested that the election could be a referendum on his policies.

The widespread criticism of Thieu's methods following Minh's actual withdrawal will no doubt continue in an even stronger fashion now that Ky has also backed out. Nonetheless, Thieu is most unlikely to be willing to relinquish control and thus probably will conclude that it is better to ride out the storm rather than risk the uncertainties of an interregnum period and new election.

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Attacks by North Vietnamese forces along the Demilitarized Zone eased up this weekend, but there are fresh reports that a new round of Communist military activity and political agitation is scheduled for sometime this week. Intercepts indicate that a Viet Cong unit in the north of the country has been ordered to "create tension and discord," starting on 24 August, and that some unidentified units have moved into the area north of Saigon; agents also report that the Communists plan attacks in the central highlands. The Communist actions apparently are intended to embarrass the government on the eve of the Lower House elections next Sunday; there is no evidence they involve large-scale military operations.

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BOLIVIA

The new government led by retired Colonel Hugo Banzer is avowedly anti-Communist and will reverse the leftist policies of the Torres regime. A political conservative, Banzer probably will adopt a moderate nationalist stance while remaining receptive to foreign investment.

The government's control is firm but it is likely to experience many strains in its formative period. Banzer is inheriting a chaotic financial and political situation. The old hatreds between the military, who are likely to be the leading force in the coalition, and the two political parties that participated in the coup are strong. Moreover, past bitterness between the moderate leftist National Revolutionary Movement (MNR) and the moderate rightist Bolivian Socialist Falange (FSB) may make it difficult for them to cooperate in the new government.

Banzer, at least initially, probably will receive strong support from leaders of the private sector who provided financial backing for the coup. Other governments in Latin America, concerned by Bolivia's leftist drift under Torres, will extend moral support, if not rapid recognition.

Late yesterday Banzer appointed most of his cabinet, which appears to be evenly split between the MNR and the FSB. The foreign minister, Mario Gutierrez, is a respected member of the FSB. Finance Minister Raul Lema, an MNR leader, served in the government of President Paz Estenssoro in 1964. Most of these individuals, as well as some of the key military figures, appeared before a mass rally in La Paz late yesterday afternoon. Banzer himself was given an animated reception by the crowd.

All organized resistance has ended in La Paz and the interior, although armed civilians are still at large. Some sniping, looting, and terrorist activity remains a possibility in coming days. In addition, leftist organizations have called for a general strike, according to press reports.

The government faces a difficult problem in working toward restoring a degree of harmony among contending political groups. The bitterness and violence of the recent period could continue if the new administration indulges in repressive action against the left.

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INTERNATIONAL MONETARY DEVELOPMENTS

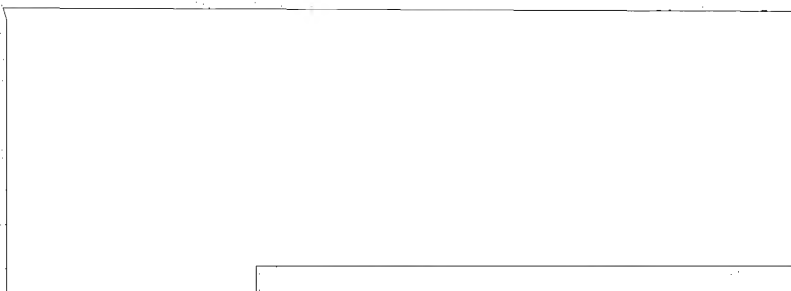
The European Community's failure last week to come up with a common policy can be attributed in part to personality clashes between the German and French finance ministers, according to sources of the US Mission to the EC. Although doctrinal differences and inadequate preparation were also important factors, the personal antipathy between the two made positions more rigid and brought about misunderstandings. Most of these sources, while not "wildly optimistic," nevertheless do not rule out the possibility that the EC Council may move toward, and perhaps achieve, a common position at the 13 September council meeting.

When most foreign exchange markets open today, trading conditions are likely to be hectic and confused because of the backlog of foreign exchange transactions and the diverse trading arrangements. However, the various central banks are expected to intervene both to inhibit fluctuations and prevent any substantial appreciation of their currencies vis-a-vis the dollar. The dollar is expected to be devalued from two to ten percent in the various West European markets.

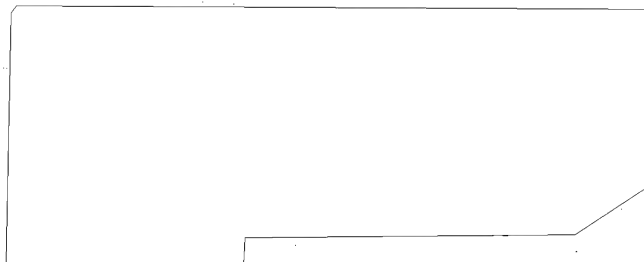
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NOTE

Communist China - US - UN: Peking's denunciation of the US "dual representation" proposal represents Communist China's official response to Washington's inscription of its proposal on the General Assembly agenda. The statement, issued by the Foreign Ministry on 20 August, is primarily a low-key exposition of Peking's position. It accuses the United States of pushing a "two Chinas" policy, firmly declares this is totally unacceptable to the Communist government, and reiterates that the mainland regime will not enter the UN unless the Nationalist government is first expelled. In setting forth its position in these uncompromising terms, Peking probably hopes to convince wavering states that no deal on the representation issue was reached with Dr. Kissinger last month and that passage of the US resolution would keep the mainland out of the UN for at least another year.

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